

City of Whitehall, Michigan

Comprehensive Annual Financial Report Year Ended June 30, 2008

Comprehensive Annual Financial Report

City of Whitehall, Michigan

June 30, 2008

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City of Whitehall, Michigan

June 30, 2008

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CITY OF WHITEHALL, MICHIGAN

List of Elected and Appointed Officials

June 30, 2008

Elected Officials

Mayor	Emery Hatch
Mayor Pro Tem	Steve Sikkenga
Council Members	Jeff Holmstrom James Bartholomew Orville Smith Tanya Cabala Edd Whalen

Appointed Officials

City Manager	Scott K. Huebler
City Clerk	Karen Helmlinger
Finance Officer/Treasurer	Laurie Audo

Independent Auditors' Report

To the Honorable Mayor and City Council
City of Whitehall, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Whitehall, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Whitehall's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Whitehall, Michigan, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, budgetary comparison information and schedule of funding status on pages 9 through 16 and pages 79 through 81 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Whitehall's basic financial statements. The combining funds statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining funds statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The schedules of operating statistics have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink that reads "Patricia L. Jones, LLC". The signature is written in a cursive, flowing style.

Muskegon, Michigan
October 8, 2008

Management's Discussion and Analysis

June 30, 2008

Management of the City of Whitehall, respectfully submits this overview and analysis of the financial activities of the City for the fiscal year ending June 30, 2008. We encourage you to consider the information presented in the financial statements along with the additional information furnished in this letter.

FINANCIAL HIGHLIGHTS

The assets of the City exceeded liabilities of \$2,503,243 at the close of the fiscal year by \$20,760,784 (net assets). Of this amount, \$5,202,583 (unrestricted net assets) may be used to meet the ongoing obligations to citizens and creditors.

Governmental activities had net assets totaling \$8,545,351. The business type activities added \$215,075 to net assets and ended the year with \$12,215,433.

The Building Inspection Fund, Street Improvement Fund, Brownfield Redevelopment Authority and Tax Increment Financing Authority were the only funds with a deficit at year end. Deficit reduction plans have been submitted to the state for approval.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, comprised of three components - government-wide, fund and notes. This report also contains supplementary information.

Government-wide Financial Statements

The government-wide financial statements are designed to provide a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or declining.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide statements mentioned above are principally supported by taxes and intergovernmental revenues (governmental activities) or from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business type activities).

The governmental activities of the City include general government, public safety, public works, health, welfare and sanitation, community and economic development and cultural and recreational activities. The business-type activities of the City include water supply and distribution, sewer services, marina and the playhouse.

The government-wide financial statements include not only the primary government but also the legally separate entities - the Tax Increment Finance Authority (TIFA), Local Development Finance Authority (LDFA) and Brownfield Redevelopment Authority (BRA). The boards of these organizations are appointed by the City Council. Given the interrelation of the two, there is some potential liability for the City due to the pledge of its full faith and credit for debt obligations. The financial information of these component units is reported in a separate column from the financial information of the primary government.

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the City can be divided into three categories - governmental, proprietary, and fiduciary.

Government Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Unlike the government-wide financial statements, governmental fund financial statements focus on current sources, uses, and balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long term impact of the short term financing decisions. The governmental fund balance sheet and statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison.

The City maintains twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances for the General Fund and the Tannery Development Construction Fund, which are all considered major funds. Data from the other ten governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary Funds - The City has enterprise and internal service proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. These funds are used to account for the sewer, water, marina and playhouse operations. The internal service funds are an accounting device used to accumulate and allocate costs internally among the various functions. The City uses its internal fund (Motor Pool) to charge the costs of equipment used to the individual funds. Because this service predominately benefits governmental rather than business-type functions, it has been included within governmental activities in the governmental-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for sewer, water, marina and playhouse funds, of which sewer, water and marina are major funds. The internal service fund is presented in its own column in the propriety funds financial statements.

Fiduciary Funds are used to account for resources held for the benefit of parties outside the City, primarily the pension fund. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the City's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include a reading of this section to better analyze and understand these statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the City's budgetary information as it relates to the actual expenditures for the General Fund.

The combining statements referred to earlier in connection with the non-major governmental funds are presented immediately following the required supplementary information on budgetary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The first table presented is a summary of the government-wide statement of net assets for the City. As stated earlier, the net assets may be used as an indicator of a government's financial health. As of June 30, the City's net assets from governmental activities totaled \$8,545,351 (41%) and \$12,215,433 (59%) from business-type activities, creating a total government-wide net asset total of \$20,760,784.

In examining the composition of these net assets, note that governmental activities net assets are invested in capital assets (i.e., streets, buildings, land, vehicles, equipment, etc.) These assets are used to provide services to the residents and they are not available to pay salaries, operational expenses, or fund capital projects.

TABLE 1
CITY OF WHITEHALL NET ASSETS

	Governmental Activities 2008	Governmental Activities 2007	Business Type Activities 2008	Business Type Activities 2007	Total 2008	Total 2007
Assets						
Current	\$2,804,184	\$3,145,770	\$3,557,923	\$3,185,811	\$6,362,107	\$6,331,581
Restricted	-	-	100,157	106,142	100,157	106,142
Noncurrent	7,354,627	7,807,385	9,447,136	9,773,768	16,801,763	17,581,153
Total Assets	10,158,811	10,953,155	13,105,216	13,065,721	23,264,027	24,018,876
Liabilities						
Current	229,394	323,209	241,652	260,810	471,046	584,019
Noncurrent	1,384,066	924,873	648,131	804,553	2,032,197	1,729,426
Total Liab.	1,613,460	1,248,082	889,783	1,065,363	2,503,243	2,313,445
Net Assets						
Capital, Net	6,202,660	7,088,168	8,197,079	8,348,248	14,399,739	15,436,416
Restricted	1,058,305	1,419,502	100,157	106,142	1,158,462	1,525,644
Unrestricted	1,284,386	1,197,403	3,918,197	3,545,968	5,202,583	4,743,371
Total Net Assets	\$8,545,351	\$9,705,073	\$12,215,433	\$12,000,358	\$20,760,784	\$21,705,431

Governmental Activities

Governmental activities decreased the City's net assets by \$1,159,722. Table 2 depicts this occurrence which will be discussed in more detail later in this analysis.

Business-type activities

At the end of the fiscal year, the net assets for business-type activities increased by \$215,075. This is most clearly represented by the increase in revenue over expenditures. Four funds comprise the business-type activities. The water fund experienced an increase in net assets of \$171,587 the sewer fund an increase of \$20,297, and the playhouse fund an increase of \$46,881 for the year.

TABLE 2
CITY OF WHITEHALL CHANGES IN NET ASSETS

Major Categories	Governmental Activities 2008	Governmental Activities 2007	Business Type Activities 2008	Business Type Activities 2007	Total 2008	Total 2007
Revenues						
Program rev.						
Charges for services	\$155,785	\$ 131,224	\$1,655,749	\$1,797,027	\$1,811,534	\$1,928,251
Op. grants	6,950	5,485	-	-	6,950	5,485
Capital grants	180,641	508,831		274,381	180,641	783,212
General rev.						
Property taxes	1,129,945	1,109,066	-	-	1,129,945	1,109,066
Grants/cont.	760,119	889,429	-	-	760,119	889,429
Unrest. earnings	133,340	136,915	117,609	130,662	250,949	267,577
Reimbursements	-	110,798	-	-	-	110,798
Misc.	34,874	24,532	97,326	19,696	132,200	44,228
Gain (loss) on sales	-	(59,145)	-	-	-	(59,145)
Transfers	-	(34,834)		34,834	-	-
Total Revenues	2,401,654	2,822,301	1,870,684	2,256,600	4,272,338	5,078,901
Expenses						
General govern.	484,839	525,418	-	-	484,839	525,418
Public safety	905,532	902,701	-	-	905,532	902,701
Public works	1,968,255	1,364,337	-	-	1,968,255	1,364,337
Health & welfare	1,825	7,910	-	-	1,825	7,910
Culture & rec.	149,471	145,795	-	-	149,471	145,795
Economic dev.	20,018	20,033	-	-	20,018	20,033
Other	8,827	8,196	-	-	8,827	8,196
Interest	22,609	27,948	-	-	22,609	27,948
Sewer fund	-	-	758,531	724,056	758,531	724,056
Water fund	-	-	569,874	583,453	569,874	583,453
Marina fund	-	-	181,283	175,376	181,283	175,376
Playhouse fund	-	-	145,921	41,375	145,921	41,375
Total Expenses	3,561,376	3,002,338	1,655,609	1,524,260	5,216,985	4,526,598
Increase(decrease) in Net Assets	(1,159,722)	(180,037)	215,075	732,340	(944,647)	552,303
Net Assets--						
July 1, 2007	9,705,073	9,885,110	12,000,358	11,268,018	21,705,431	21,153,128
Net Assets--						
June 30, 2008	\$8,545,351	\$ 9,705,073	\$12,215,433	\$12,000,358	\$20,760,784	\$21,705,431

FINANCIAL ANALYSIS

As stated earlier in this discussion and analysis, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2008 fiscal year, the governmental funds reported a combined fund balance of \$2,174,232. Of this number, \$1,086,165 represents the unreserved fund balance, comprised of \$807,233 in the General Fund and \$278,932 in other governmental funds. It is necessary to further distinguish between unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the City's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders (\$29,762), capital purchases (\$643,588), and reserves for perpetual care (\$414,717).

The General Fund is the chief operating fund of the City. At the end of 2008, the unreserved General Fund balance was \$807,233 and the total General Fund balance was \$836,995. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 47% of the general fund expenditures and outgoing transfers.

Proprietary Funds

The City proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The unrestricted net assets of the Marina Fund at the end of the year increased by \$1,139 as also did the Sewer Fund by \$3,839 the Water Fund by \$315,851 and the Playhouse Fund by \$51,400. The result was an overall unrestricted net asset increase in the proprietary funds of \$372,229.

General Fund Budget

Minimal amendments were made to the original budget during the fiscal year. General Fund revenues were increased in state shared revenue, police grant, interest earnings and an Alcoa grant. Increases in expenses occurred for downtown streetscape, pathway, equipment purchase for the police department, and transfer to the local street fund. Decreases were made in expenses for cemetery improvements and transfer to the playhouse.

Capital Assets Administration

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2008 totaled \$16,316,744 (net of accumulated depreciation). Investment in capital assets includes land, buildings, infrastructure, improvements, machinery, equipment, and vehicles.

Major capital asset events during the current fiscal year included the completion of Goodrich Park Improvements. Construction in progress includes the Lake St infrastructure improvements.

TABLE 3
CITY OF WHITEHALL CAPITAL ASSETS
Net of Accumulated Depreciation

	Governmental Activities 2008	Governmental Activities 2007	Business- Type Activities 2008	Business- Type Activities 2007	Total 2008	Total 2007
Land	\$930,278	\$ 930,278	\$453,097	\$ 453,097	\$1,383,375	\$ 1,383,375
Construction in progress	18,952	130,522	293,130	293,130	312,082	423,652
Land improvements	206,670	226,975	244,901	254,958	451,571	481,933
Buildings	876,854	746,206	541,135	564,787	1,417,989	1,310,993
Infrastructure	5,018,765	5,424,206	7,389,736	7,626,155	12,408,501	13,050,361
Equipment	303,108	349,198	40,118	58,355	343,226	407,553
Total	\$7,354,627	\$7,807,385	\$8,962,117	\$9,250,482	\$16,316,744	\$17,057,867

Long Term Debt

At the end of the fiscal year, the City had total outstanding debt of \$3,567,104 consisting of general obligation bonds, Brownfield loan, revenue bonds, installment purchase agreements, and accumulated compensated absences. The general obligation debt of \$300,000 and \$748,000 Brownfield loan in governmental funds and \$1,325,000 in the component units are backed by the full faith and credit of the City. There are also installment purchases of \$10,745 for the ambulance building and \$89,155 for the Mill Pond property on Lake Street. The remainder of the debt represents bonds secured solely by specified revenue sources.

ECONOMIC FACTORS AND NEXT YEARS BUDGET

The General Fund has three major revenue sources - state shared revenue, property taxes and contributions from TIFA and LDFA. These three comprised over 89% of the general fund revenue. In fiscal year 2008/09, State shared revenue, TIFA/LDFA contributions and property tax revenues combined are expected to remain flat.

The City has undertaken a number of measures to offset flat or declining revenues such as reducing expenditures, reduced staffing, and changes in health care plans.

The General Fund Budget expenditures increased for fiscal year 2008/09 by 1%. The budget is using 22,751 of fund balance. The Fund will have the target fund balance at 35% of expenses.

The City Council and staff remain optimistic that the City's economic stability will be further enhanced by several projects in various stages of development. These include the redevelopment of the old tannery.

The City's business-type activities have not experienced the same revenue losses as the governmental activities funds. Service rates for water and sewer will increase 2% for next calendar year. Marina rates are established by the Michigan Waterways Commission. The Playhouse summer season was a success but down from last season, so hopefully it will be able to continue to support itself in the coming year.

Requests for Information

This financial report is designed to provide a general overview of the City of Whitehall's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City of Whitehall, 405 East Colby Street, Whitehall, Michigan, 49461, (231) 894-4048.

<i>June 30, 2008</i>	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets			
Cash and investments	\$2,547,623	\$ 3,081,500	\$ 5,629,123
Receivables	2,213	389,360	391,573
Internal balances	35,231	(35,231)	-
Due from component unit	40,000	-	40,000
Due from other governmental units	121,989	1,655	123,644
Inventories	27,366	62,646	90,012
Prepaid items	29,762	57,993	87,755
Restricted assets	-	100,157	100,157
Capital assets, net	7,354,627	8,962,117	16,316,744
Access rights, net	-	473,730	473,730
Bond issue costs, net	-	11,289	11,289
Total Assets	10,158,811	13,105,216	23,264,027
Liabilities			
Checks issued against future deposits	1,276	-	1,276
Accounts payable and accrued expenses	159,100	62,186	221,286
Customer deposits	-	7,731	7,731
Deferred revenue	675	16,696	17,371
Bonds, capital leases and contracts, due within one year	64,276	145,631	209,907
Accrued interest, due within one year	4,067	9,408	13,475
Bonds, capital leases and contracts, less amounts due within one year	1,083,624	610,000	1,693,624
Compensated absences	300,442	38,131	338,573
Total Liabilities	1,613,460	889,783	2,503,243
Net Assets			
Investment in capital assets, net of related debt	6,202,660	8,197,079	14,399,739
Restricted for			
Capital projects	643,588	-	643,588
Debt service	-	100,157	100,157
Perpetual care	414,717	-	414,717
Unrestricted	1,284,386	3,918,197	5,202,583
Net Assets	\$8,545,351	\$ 12,215,433	\$ 20,760,784

City of Whitehall, Michigan

Statement of Net Assets

<hr/>	
Total Component Units	
<hr/>	
\$ 435,560	
139,603	
-	
(40,000)	
-	
-	
-	
-	
940,244	
-	
24,331	
<hr/>	
1,499,738	
-	
134,310	
-	
-	
220,000	
21,489	
1,105,000	
-	
<hr/>	
1,480,799	
-	
-	
-	
-	
18,939	
<hr/>	
\$ 18,939	
<hr/>	

The accompanying notes are an integral part of this statement.

		Program Revenues				
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		Total
<i>Year ended June 30, 2008</i>	Expenses					
Primary Government						
Government activities						
General government	\$ 484,839	\$ 69,924	\$ -	\$ -	\$	69,924
Public safety	905,532	25,880	6,950	-		32,830
Public works	1,968,255	59,981	-	180,641		240,622
Health and sanitation	1,825	-	-	-		-
Community and economic development	20,018	-	-	-		-
Culture and recreation	149,471	-	-	-		-
Other governmental functions	8,827	-	-	-		-
Interest on long-term debt	22,609	-	-	-		-
Total Government Activities	3,561,376	155,785	6,950	180,641		343,376
Business-Type Activities						
Sewer	758,531	734,652	-	-		734,652
Water	569,874	677,698	-	-		677,698
Marina	181,283	144,412	-	-		144,412
Non-Major - Playhouse	145,921	98,987	-	-		98,987
Total Business-Type Activities	1,655,609	1,655,749	-	-		1,655,749
Total Primary Government	\$ 5,216,985	\$ 1,811,534	\$ 6,950	\$ 180,641		\$ 1,999,125
Component Units						
TIFA	\$ 785,290	\$ -	\$ -	\$ 31,372	\$	31,372
LDFA	122,352	-	-	-		-
Brownfield Redevelopment Authority	13,165	-	-	-		-
Total Component Units	\$ 920,807	\$ -	\$ -	\$ 31,372		\$ 31,372
General Revenues, Transfers and Special Items						
Property taxes						
Grants and contributions not restricted to specific programs						
Reimbursements						
Unrestricted investment earnings						
Miscellaneous						
Total General Revenues, Transfers and Special items						
Change in Net Assets (Deficit)						
Net Assets (Deficit) – beginning of year						
Net Assets – end of year						

City of Whitehall, Michigan

Statement of Activities

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Total	
Governmental	Business-Type Activities	Total	Component	Units
\$ (414,915)	\$ -	\$ (414,915)	\$ -	-
(872,702)	-	(872,702)	-	-
(1,727,633)	-	(1,727,633)	-	-
(1,825)	-	(1,825)	-	-
(20,018)	-	(20,018)	-	-
(149,471)	-	(149,471)	-	-
(8,827)	-	(8,827)	-	-
(22,609)	-	(22,609)	-	-
(3,218,000)	-	(3,218,000)	-	-
-	(23,879)	(23,879)	-	-
-	107,824	107,824	-	-
-	(36,871)	(36,871)	-	-
-	(46,934)	(46,934)	-	-
-	140	140	-	-
(3,218,000)	140	(3,217,860)	-	-
-	-	-	(753,918)	-
-	-	-	(122,352)	-
-	-	-	(13,165)	-
-	-	-	(889,435)	-
1,129,945	-	1,129,945	942,063	-
760,119	-	760,119	-	-
-	-	-	138,875	-
133,340	117,609	250,949	36,539	-
34,874	97,326	132,200	-	-
2,058,278	214,935	2,273,213	1,117,477	-
(1,159,722)	215,075	(944,647)	228,042	-
9,705,073	12,000,358	21,705,431	(209,103)	-
\$ 8,545,351	\$ 12,215,433	\$ 20,760,784	\$ 18,939	-

The accompanying notes are an integral part of this statement.

<i>June 30, 2008</i>	General Fund	Tannery Development Construction Fund
Assets		
Cash and investments	\$ 777,040	\$ 585,183
Taxes receivable	211	-
Interest receivable	659	562
Due from other governmental units	65,454	11,654
Due from other funds	30,885	-
Due from component unit	40,000	-
Prepaid items	29,762	-
Total Assets	\$ 944,011	\$ 597,399
Liabilities and Fund Balances		
Liabilities		
Checks issued against future deposits	\$ -	\$ -
Accounts payable	65,362	35,387
Accrued liabilities	41,654	-
Deferred revenue	-	-
Total Liabilities	107,016	35,387
Fund Balances		
Reserved for prepaid items	29,762	-
Reserved for capital projects	-	562,012
Reserved for perpetual care	-	-
Unreserved	807,233	-
Total Fund Balances	836,995	562,012
Total Liabilities and Fund Balances	\$ 944,011	\$ 597,399

City of Whitehall, Michigan

Governmental Funds

Balance Sheet



Other Governmental Funds	Total Governmental Funds
\$ 748,201	\$2,110,424
-	211
378	1,599
41,658	118,766
-	30,885
-	40,000
-	29,762
\$ 790,237	\$2,331,647
 \$ 1,276	 \$ 1,276
10,624	111,373
2,437	44,091
675	675
 15,012	 157,415
-	29,762
81,576	643,588
414,717	414,717
278,932	1,086,165
 775,225	 2,174,232
\$ 790,237	\$2,331,647

The accompanying notes are an integral part of this statement.

City of Whitehall, Michigan

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets

June 30, 2008

Total Fund Balances - Governmental Funds	\$ 2,174,232
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources
and are not reported in the governmental funds.

Cost of capital assets	13,406,978
Accumulated depreciation	<u>(6,425,701)</u>
	6,981,277

Long-term liabilities in governmental activities are not due and payable
in the current period and are not reported in the governmental funds.

Long-term liabilities	(1,147,900)
Compensated absences	<u>(293,566)</u>
	(1,441,466)

Accrued interest in governmental activities is not reported in the governmental funds.	(4,067)
---	---------

Internal service funds are used by management to charge the costs of equipment and information system costs to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets.	835,375
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Net Assets of Governmental Activities in the Statement of Net Assets	\$ 8,545,351
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The accompanying notes are an integral part of this statement.

<i>Year ended June 30, 2008</i>	General Fund	Tannery Development Construction Fund
Revenues		
Property taxes	\$1,129,945	\$ -
Licenses and permits	23,703	-
Intergovernmental revenues		
Federal	1,001	-
State	302,854	180,641
Local	220,371	-
Charges for services	60,963	-
Fines and forfeitures	9,880	-
Investment earnings	63,481	32,592
Other	10,208	14,794
Total Revenues	1,822,406	228,027
Expenditures		
Current		
General government	464,692	-
Public safety	760,181	-
Public works	127,378	417
Health and sanitation	1,825	-
Community and economic development	20,018	-
Culture and recreation	147,664	-
Other governmental functions	8,827	-
Debt service		
Principal	6,918	-
Interest and fees	976	-
Capital outlay	46,042	1,111,705
Total Expenditures	1,584,521	1,112,122
Excess of revenues over (under) expenditures	237,885	(884,095)
Other Financing Sources (Uses)		
Proceeds from issuance of long-term debt	-	498,000
Operating transfers in	11,783	-
Operating transfers out	(140,400)	-
Total Other Financing Sources (Uses)	(128,617)	498,000
Net change in fund balances	109,268	(386,095)
Fund Balance, at beginning of year	727,727	948,107
Fund Balance, at end of year	\$ 836,995	\$ 562,012

City of Whitehall, Michigan

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

Other Governmental Funds	Total Governmental Funds
\$ -	\$ 1,129,945
-	23,703
-	1,001
270,680	754,175
-	220,371
32,857	93,820
-	9,880
37,267	133,340
10,417	35,419
351,221	2,401,654
-	464,692
41,673	801,854
420,920	548,715
-	1,825
-	20,018
-	147,664
-	8,827
55,610	62,528
24,355	25,331
-	1,157,747
542,558	3,239,201
(191,337)	(837,547)
-	498,000
212,255	224,038
(83,638)	(224,038)
128,617	498,000
(62,720)	(339,547)
837,945	2,513,779
\$ 775,225	\$ 2,174,232

The accompanying notes are an integral part of this statement.

City of Whitehall, Michigan

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Year ended June 30, 2008

Net Change in Fund Balances – Total Governmental Funds	\$ (339,547)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.	
Capital outlay	110,217
Depreciation expense	(498,505)
	<u>(388,288)</u>
Proceeds from long-term borrowings are recorded as revenues in the governmental funds, but the borrowing increases long-term liabilities in the Statement of Net Assets.	(498,000)
Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	62,528
Accrued interest on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.	2,722
Increases in the compensated absences are reported on the accrual method in the Statement of Activities, but reported as expenditures when financial resources are used in the governmental funds.	(27,399)
The internal service fund is used by management to charge the costs of equipment and information systems to individual funds.	28,262
Change in Net Assets of Governmental Activities	\$ (1,159,722)

The accompanying notes are an integral part of this statement.

<i>June 30, 2008</i>	Enterprise Funds		
	Sewer	Water	Marina
Assets			
Current Assets			
Cash and investments	\$1,246,726	\$ 1,568,256	\$ 175,897
Accounts receivable	206,715	178,029	-
Interest receivable	1,324	3,053	167
Due from other funds	-	-	-
Due from other governmental units	-	210	815
Inventories	-	39,316	23,330
Prepaid items	57,993	-	-
Total Current Assets	1,512,758	1,788,864	200,209
Restricted Assets	58,479	41,678	-
Non-Current Assets			
Capital assets, net			
Plants and systems	3,577,225	6,766,686	-
Buildings and improvements	-	341,148	474,835
Land improvements	-	-	523,536
Equipment	190,470	17,452	-
Land	-	4,223	345,420
Construction in progress	144,380	148,750	-
Less accumulated depreciation	(1,243,458)	(2,163,289)	(430,604)
Capital assets, net	2,668,617	5,114,970	913,187
Access rights, net of accumulated amortization	473,730	-	-
Bond issuance costs, net of accumulated amortization	6,626	4,663	-
Total Non-Current Assets	3,148,973	5,119,633	913,187
Total Assets	4,720,210	6,950,175	1,113,396

City of Whitehall, Michigan

Proprietary Funds

Statement of Net Assets



Nonmajor - Playhouse		Total	Internal Service Funds
\$ 90,621	\$ 3,081,500		\$ 437,199
-	384,744		-
72	4,616		403
-	-		4,346
630	1,655		3,223
-	62,646		27,366
-	57,993		-
91,323	3,593,154		472,537
-	100,157		-
-	10,343,911		-
161,102	977,085		410,121
-	523,536		-
9,825	217,747		900,728
103,454	453,097		-
-	293,130		-
(9,038)	(3,846,389)		(937,499)
265,343	8,962,117		373,350
-	473,730		-
-	11,289		-
265,343	9,447,136		373,350
356,666	13,140,447		845,887

The accompanying notes are an integral part of this statement.

This Statement Covers More Than One Page.

<i>June 30, 2008</i>	Enterprise Funds		
	Sewer	Water	Marina
Liabilities			
Current Liabilities			
Accounts payable	\$ 30,664	\$ 11,988	\$ 2,054
Accrued expenses	8,607	10,508	2,472
Customer deposits	-	7,731	-
Due to other funds	-	35,231	-
Deferred revenue	-	-	-
Bonds, capital leases and contracts, due within one year	110,631	35,000	-
Total Current Liabilities	149,902	100,458	4,526
Non-Current Liabilities			
Bonds, capital leases and contracts, less amounts due within one year	355,000	255,000	-
Compensated absences	14,377	23,754	-
Total Non-Current Liabilities	369,377	278,754	-
Total Liabilities	519,279	379,212	4,526
Net Assets			
Invested in capital assets, net of related debt	2,197,507	4,821,042	913,187
Restricted for debt service	58,479	41,678	-
Unrestricted	1,944,945	1,708,243	195,683
Total Net Assets	\$4,200,931	\$ 6,570,963	\$ 1,108,870

City of Whitehall, Michigan

Proprietary Funds

Statement of Net Assets

Nonmajor - Playhouse	Total	Internal Service Funds
\$ 3,014	\$ 47,720	\$ 2,269
2,287	23,874	1,367
-	7,731	-
-	35,231	-
16,696	16,696	-
-	145,631	-
21,997	276,883	3,636
-	610,000	-
-	38,131	6,876
-	648,131	6,876
21,997	925,014	10,512
265,343	8,197,079	373,350
-	100,157	-
69,326	3,918,197	462,025
\$ 334,669	\$ 12,215,433	\$ 835,375

The accompanying notes are an integral part of this statement.

	Enterprise Funds		
<i>Year ended June 30, 2008</i>	Sewer	Water	Marina
Revenues			
Charges for services	\$ 731,406	\$ 666,908	\$ 144,412
Operating Expenses			
Operations	605,901	361,197	156,454
Depreciation and amortization	124,104	191,508	24,829
Total Operating Expenses	730,005	552,705	181,283
Operating Income (Loss)	1,401	114,203	(36,871)
Non-Operating Revenues (Expenses)			
Investment income	49,176	58,763	6,531
Connection fees	3,246	10,790	-
Other income	-	-	6,650
Gain on sale of capital assets	-	-	-
Interest expense	(28,526)	(17,169)	-
Total Non-Operating Revenues	23,896	52,384	13,181
Income (Loss) Before Transfers	25,297	166,587	(23,690)
Transfers in	-	5,000	-
Transfers out	(5,000)	-	-
Change in Net Assets	20,297	171,587	(23,690)
Net Assets, beginning of year	4,180,634	6,399,376	1,132,560
Net Assets, end of year	\$4,200,931	\$ 6,570,963	\$ 1,108,870

City of Whitehall, Michigan

Proprietary Funds

Statement of Revenues, Expenses and Changes in Fund Net Assets

		Internal
Nonmajor -	Total	Service
Playhouse		Funds
\$ 98,987	\$ 1,641,713	\$ 245,914
141,402	1,264,954	173,292
4,519	344,960	64,470
145,921	1,609,914	237,762
(46,934)	31,799	8,152
3,139	117,609	14,860
-	14,036	-
90,676	97,326	-
-	-	5,250
-	(45,695)	-
93,815	183,276	20,110
46,881	215,075	28,262
-	5,000	-
-	(5,000)	-
46,881	215,075	28,262
287,788	12,000,358	807,113
\$ 334,669	\$ 12,215,433	\$ 835,375

The accompanying notes are an integral part of this statement.

<i>Year ended June 30, 2008</i>	Enterprise Funds		
	Sewer	Water	Marina
Cash Flows from Operating Activities			
Receipts from customers	\$ 779,188	\$ 703,608	\$ 144,632
Receipts from interfund services provided	2,157	7,046	-
Payments to suppliers	(464,428)	(115,618)	(116,125)
Payments to employees	(141,052)	(213,046)	(42,258)
Internal activity - payments to other funds	(32,366)	(42,008)	(3,035)
Net cash provided by (used for) operating activities	143,499	339,982	(16,786)
Cash Flows from Non-Capital Financing Activities			
Operating subsidies and transfers to other funds	(5,000)	5,000	-
Cash Flows from Capital and Related Financing Activities			
Purchases of capital assets	-	(18,328)	-
Proceeds from sale of capital assets	-	-	-
Principal and interest paid on long-term debt	(193,321)	(47,563)	-
Other receipts	3,246	10,790	6,650
Net cash provided by (used for) capital and related financing activities	(190,075)	(55,101)	6,650
Cash Flows from Investing Activities			
Investment earnings	52,813	55,710	7,017
Net increase (decrease) in cash and investments	1,237	345,591	(3,119)
Cash and investments, beginning of year	1,303,968	1,264,343	179,016
Cash and investments, end of year	\$1,305,205	\$ 1,609,934	\$ 175,897

City of Whitehall, Michigan

Proprietary Funds

Statement of Cash Flows



Nonmajor - Playhouse		Total	Internal Service Funds
\$ 100,445	\$ 1,727,873	\$ -	-
-	9,203	243,885	
(61,219)	(757,390)	(100,069)	
(78,039)	(474,395)	(92,125)	
-	(77,409)	-	
(38,813)	427,882	51,691	
-	-	-	
-	(18,328)	-	
-	-	5,250	
-	(240,884)	-	
90,676	111,362	-	
90,676	(147,850)	5,250	
3,113	118,653	15,660	
54,976	398,685	72,601	
35,645	2,782,972	364,598	
\$ 90,621	\$ 3,181,657	\$ 437,199	

The accompanying notes are an integral part of this statement.

This Statement Covers More Than One Page.

<i>Year ended June 30, 2008</i>	Enterprise Funds		
	Sewer	Water	Marina
Reconciliation of cash and investments to the balance sheet			
Cash and investments	\$1,246,726	\$ 1,568,256	\$ 175,897
Restricted assets	58,479	41,678	-
	\$1,305,205	\$ 1,609,934	\$ 175,897
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities			
Operating income (loss)	\$ 1,401	\$ 114,203	\$ (36,871)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities			
Depreciation and amortization	124,104	191,508	24,829
Change in assets and liabilities			
Receivables, net	47,782	35,414	-
Due from other governmental units	-	(210)	220
Due from other funds	2,157	1,577	-
Inventories	-	(3,741)	796
Prepaid items	-	-	-
Accounts and other payables	(25,911)	187	(5,368)
Accrued expenses	(4,457)	(5,918)	(392)
Customer deposits	-	1,493	-
Due to other funds	(1,577)	5,469	-
Deferred revenue	-	-	-
Net Cash Provided by (Used for)			
Operating Activities	\$ 143,499	\$ 339,982	\$ (16,786)

City of Whitehall, Michigan

Proprietary Funds

Statement of Cash Flows



Nonmajor - Playhouse		Total	Internal Service Funds
\$ 90,621	\$ 3,081,500		\$ 437,199
-	100,157		-
\$ 90,621	\$ 3,181,657		\$ 437,199
\$ (46,934)	\$ 31,799		\$ 8,152
4,519	344,960		64,470
-	83,196		-
(630)	(620)		(341)
-	3,734		(1,688)
-	(2,945)		(16,221)
2,250	2,250		-
(174)	(31,266)		(163)
68	(10,699)		(2,518)
-	1,493		-
-	3,892		-
2,088	2,088		-
\$ (38,813)	\$ 427,882		\$ 51,691

The accompanying notes are an integral part of this statement.

City of Whitehall, Michigan

Fiduciary Funds

Statement of Fiduciary Net Assets

<hr/>		
	Pension	<u>Agency Fund</u>
	Trust	Tax
<i>June 30, 2008</i>	Fund	Collection
		Fund
<hr/>		
Assets		
Cash and investments	\$ 769,697	\$ -
<hr/>		
Net Assets		
Held in trust for pension benefits	\$ 769,697	\$ -
<hr/>		

The accompanying notes are an integral part of this statement.

City of Whitehall, Michigan

Fiduciary Funds

Statement of Changes in Fiduciary Net Assets

		Pension Trust Fund
<i>Year ended June 30, 2008</i>		
Additions		
Contributions		
Employer	\$ 22,005	
Plan members	63,157	
Total contributions	85,162	
Investment earnings		
Net decrease in fair value of investments	(60,148)	
Total Additions	25,014	
Deductions		
Benefits paid	16,805	
Change in Net Assets	8,209	
Net Assets – Beginning of Year	761,488	
Net Assets – End of Year	\$ 769,697	

The accompanying notes are an integral part of this statement.

<i>June 30, 2008</i>	TIFA	LDFA
Assets		
Current Assets		
Cash and investments	\$ 362,272	\$ 68,888
Interest receivable	594	120
Other receivables	138,875	-
Total Current Assets	501,741	69,008
Non-Current Assets		
Capital assets, net	392,616	547,628
Bond issue costs, net	14,637	9,694
Total Non-Current Assets	407,253	557,322
Total Assets	\$ 908,994	\$ 626,330
Liabilities and Net Assets (Deficit)		
Current Liabilities		
Accounts payable and accrued expenses	\$ 130,141	\$ 468
Due to the primary government	-	-
Bonds, capital leases and contracts, due within one year	155,000	65,000
Accrued interest, due within one year	15,037	6,452
Total Current Liabilities	300,178	71,920
Non-Current Liabilities		
Bonds, less amounts due within one year	735,000	370,000
Total Liabilities	1,035,178	441,920
Net Assets (Deficit)		
Unrestricted	(126,184)	184,410
Total Net Assets (Deficit)	\$ (126,184)	\$ 184,410

City of Whitehall, Michigan

Components Units

Statement of Net Assets



Brownfield Redevelopment Authority	Total
\$ 4,400	\$ 435,560
14	728
-	138,875
4,414	575,163
-	940,244
-	24,331
-	964,575
\$ 4,414	\$ 1,539,738

\$ 3,701	\$ 134,310
40,000	40,000
-	220,000
-	21,489
43,701	415,799
-	1,105,000
43,701	1,520,799
(39,287)	18,939
\$ (39,287)	\$ 18,939

The accompanying notes are an integral part of this statement.

			Program Revenue
			Capital Grants and Contributions
<i>Year ended June 30, 2008</i>	Expenses		
Component Units			
TIFA			
General government	\$ 52,178	\$	-
Public works	390,238		31,372
Interest on long-term debt	32,874		-
Other governmental functions	310,000		-
Total TIFA	785,290		31,372
LDFA			
General government	22,855		-
Public works	10,367		-
Interest on long-term debt	15,130		-
Other governmental functions	74,000		-
Total LDFA	122,352		-
Brownfield Redevelopment Authority	13,165		-
Total Component Units	\$ 920,807	\$	31,372
General revenues			
Property taxes			
Reimbursements			
Unrestricted investment earnings			
Total general revenues			
Change in Net Assets (Deficit)			
Net Assets (Deficit), beginning of year			
Net Assets (Deficit), end of year			

City of Whitehall, Michigan

Components Units

Statement of Activities

Net (Expense) Revenue and Changes in Net Assets			
TIFA	LDFA	Brownfield Redevelopment Authority	Total
\$ (52,178)	\$ -	\$ -	\$ (52,178)
(358,866)	-	-	(358,866)
(32,874)	-	-	(32,874)
(310,000)	-	-	(310,000)
(753,918)	-	-	(753,918)
-	(22,855)	-	(22,855)
-	(10,367)	-	(10,367)
-	(15,130)	-	(15,130)
-	(74,000)	-	(74,000)
-	(122,352)	-	(122,352)
-	-	(13,165)	(13,165)
(753,918)	(122,352)	(13,165)	(889,435)
782,211	136,348	23,504	942,063
138,875	-	-	138,875
28,400	7,793	346	36,539
949,486	144,141	23,850	1,117,477
195,568	21,789	10,685	228,042
(321,752)	162,621	(49,972)	(209,103)
\$ (126,184)	\$ 184,410	\$ (39,287)	\$ 18,939

The accompanying notes are an integral part of this statement.

City of Whitehall, Michigan

Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies

The financial statements of the City of Whitehall, Michigan (the "City") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance. The more significant of the City's accounting policies are described below.

Financial Reporting Entity

The City of Whitehall, Michigan is a municipal corporation governed by an elected seven-member City Council which appoints one of its members as mayor and is administered by a City Manager appointed by the City Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Discretely presented component units – The discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the primary government. Each discretely presented component unit has a June 30 fiscal year end. Component units are presented as governmental fund types. The discretely presented component units are as follows:

City of Whitehall, Michigan

Notes to Basic Financial Statements

Tax Increment Finance Authority (TIFA), Brownfield Redevelopment Authority (Brownfield), and Local Development Finance Authority (LDFA). The TIFA, Brownfield and LDFA boards are appointed by the City Council, but the Authorities operate as separate entities. The boards can authorize and issue debt independent from the City.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment.

City of Whitehall, Michigan

Notes to Basic Financial Statements

Taxes and other items not properly included among program revenues are reported instead as general revenues. The City does not allocate indirect costs.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

City of Whitehall, Michigan

Notes to Basic Financial Statements

Property taxes, income taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

General Fund – The General Fund is the government’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Tannery Development Construction Fund – This fund is used to improve the City’s waterfront.

The City reports the following three major proprietary funds:

Sewer Fund – This fund operates the City’s sewage pumping station, collection systems and pays for access to the County’s sewage treatment plant.

Water Fund – This fund operates the City’s water distribution system.

Marina Fund – This fund operates a municipal marina.

Additionally, the City reports the following fund types:

Pension Trust Fund – This fund accounts for the activities of the City employees' retirement plan, which accumulates resources for pension benefit payments.

Internal Service Fund – This fund accounts for equipment management services provided to other funds of the government on a cost reimbursement basis.

City of Whitehall, Michigan

Notes to Basic Financial Statements

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services or privileges provided, (2) operating grants and contributions and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

City of Whitehall, Michigan

Notes to Basic Financial Statements

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The City has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the City to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers' acceptances, state-approved investment pools and certain mutual funds.

The component units' cash and investments are maintained within the City's investment pool. All investments are stated at fair value.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

City of Whitehall, Michigan

Notes to Basic Financial Statements

All trade and property tax receivables are shown net of allowance for uncollectibles.

The City bills and collects its own property taxes and also collects taxes for the county, school, State of Michigan and other units. Taxes are levied on each July 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following March 1 are turned over by the City to the County for collection. The County advances the City all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the City. The City recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2007 state taxable value for real/personal property of the City totaled approximately \$116,300,000 of which approximately \$47,300,000 was captured by the component units. The ad valorem taxes levied consisted of 12.7764 mills for the City's operating purposes. These amounts are recognized in the respective General Fund, TIFA, LDFA and Brownfield Redevelopment Authority.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

City of Whitehall, Michigan

Notes to Basic Financial Statements

Restricted Assets

Certain proceeds of the Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	25-40
Infrastructure	20-30
Land improvements	10-20
Equipment	5-10
Access rights	40

City of Whitehall, Michigan

Notes to Basic Financial Statements

Compensated Absences

City employees are granted vacation and sick leave in varying amounts based on length of service. Employees must use earned vacation time in the current year but can carry over a maximum of 20 days. Upon termination, employees are paid for unused vacation at their current rates. Sick leave is accumulated at the rate of one day per month of employment. Unused sick leave is accumulated up to 180 days for employees. Unused accumulated sick leave is paid to employees who resign or retire, limited to 75 days. All vacation and sick pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

City of Whitehall, Michigan

Notes to Basic Financial Statements

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

2. Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects funds, which adopt project-length budgets, and the permanent fund, which is not budgeted. All annual appropriations lapse at fiscal year end.

The City follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the first Monday of May, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the City Hall to obtain taxpayer comments.
- c. Not later than the first Monday in June, the budget is legally enacted through passage of a resolution.

City of Whitehall, Michigan

Notes to Basic Financial Statements

- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the City Council. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the fund level. The City Council made several supplemental budgetary appropriations throughout the year.

Fund Deficits

As of June 30, 2008, the City's Building Inspection and Street Improvement funds had undesignated fund deficits of \$1,853 and \$8,579, respectively. The City's TIFA and Brownfield Redevelopment Authority component units had undesignated fund deficits of \$126,184 and \$39,287, respectively. The deficits will be eliminated through future operations.

3. Cash and Investments

Deposits

State statutes require that certificates of deposit, savings accounts, deposit accounts and depository receipts are made with banks doing and having a place of business in the State of Michigan that are also members of a federal or national insurance corporation.

Custodial Credit Risk Related to Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits might not be recovered. The City does not have a deposit policy for custodial credit risk. At June 30, 2008, \$4,274,699 of the City's bank balances of \$4,597,289 were exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$4,274,699</u>
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City of Whitehall, Michigan

Notes to Basic Financial Statements

Investments

At June 30, 2008, the City had the following investments:

Investment	Fair Value	Maturity
U.S. Treasury Bill	\$ 25,047	8/15/2008
U.S. Treasury Bill	40,156	10/15/2008
U.S. Treasury Bill	50,637	12/31/2008
U.S. Treasury Bill	51,067	5/15/2009
U.S. Treasury Bill	36,895	7/31/2012
U.S. Treasury Bill	52,058	9/30/2012
U.S. Treasury Bill	40,175	11/30/2012
FHLMC Disc NT	292,783	12/8/2008
Certificate of Deposit - Huntington Bank	100,000	10/14/2008
Certificate of Deposit - Huntington Bank	100,000	1/21/2009
Certificate of Deposit - National City Bank	161,913	2/16/2009
Certificate of Deposit - Ann Arbor Commerce	103,305	3/19/2009
Certificate of Deposit - Grand Haven Bank	103,310	3/19/2009
Certificate of Deposit - Macomb Community	103,305	3/19/2009
Certificate of Deposit - Muskegon Commerce	103,331	3/19/2009
Certificate of Deposit - Paragon Bank & Trust	103,305	3/19/2009
Certificate of Deposit - Huntington Bank	100,000	6/26/2009
Certificate of Deposit - Fifth Third Bank	108,966	6/27/2009
Total	\$1,676,253	

Interest Rate Risk

The City's investment policy requires investments to be diversified by specific maturity dates and by individual financial institutions of a specific class of securities as a means of managing its exposure to fair value losses arising from increasing interest rates and in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Custodial Credit Risk Related to Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. All of the City's investments are held in the name of the City.

City of Whitehall, Michigan

Notes to Basic Financial Statements

Credit Risk

State statutes authorize the City to invest in obligations and certain repurchase agreements of the U.S. Treasury and related governmental agencies, commercial paper rated prime at the time of purchase and maturing not more than 270 days from the date of purchase, bankers acceptances and certificates of deposit issued or created by any state or national bank insured with the applicable federal agency, investment pools authorized by the Surplus Funds Investment Pool Act and mutual funds composed entirely of the above investments.

The City's investment policy does not further limit its investment choices. At June 30, 2008, the City's investment in FHLMC Disc NT was rated AAA by Standard & Poor's.

Concentration of Credit Risk

The City's investment policy places no limit on the amount the City may invest in any one issuer.

4. Restricted Assets

Restrictions are placed on assets by bond ordinance and City Council action. At June 30, 2008, restricted cash and investments in the enterprise funds are restricted as follows:

Business-Type Activities

Water Fund

Bond and Interest Redemption Fund	\$ 12,678
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Bond Reserve Fund	29,000
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	41,678
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Sewer Fund

Bond and Interest Redemption Fund	17,979
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Bond Reserve Fund	40,500
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	58,479
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	\$ 100,157
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City of Whitehall, Michigan

Notes to Basic Financial Statements

After meeting the operation and maintenance and bond and interest redemption requirements of the bond ordinances, all remaining revenues of the system are to be paid to the bond reserve accounts until a sum equal to the maximum annual debt service requirement on the bonds has been accumulated. These amounts were achieved by March 2008, as required. As of June 30, 2008, there was \$69,500 deposited into this account.

- 5. Capital Assets** Capital asset activity for the year ended June 30, 2008 was as follows:

Governmental Activities	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets, not depreciable:				
Land	\$ 930,278	\$ -	\$ -	\$ 930,278
Construction in progress	130,522	6,835	118,405	18,952
Total capital assets, not depreciable	1,060,800	6,835	118,405	949,230
Capital assets being depreciated:				
Infrastructure	9,822,920	-	-	9,822,920
Buildings and other improvements	1,511,205	175,745	-	1,686,950
Land improvements	1,026,229	11,783	-	1,038,012
Equipment	1,227,711	34,259	41,255	1,220,715
Total capital assets being depreciated	13,588,065	221,787	41,255	13,768,597
Less accumulated depreciation for:				
Infrastructure	4,398,714	405,441	-	4,804,155
Buildings and other improvements	764,999	45,097	-	810,096
Land improvements	799,254	32,088	-	831,342
Equipment	878,513	80,349	41,255	917,607
Total accumulated depreciation	6,841,480	562,975	41,255	7,363,200
Total capital assets being depreciated, net	6,746,585	(341,188)	-	6,405,397
Capital Assets, Net	\$ 7,807,385	\$ (334,353)	\$ 118,405	\$ 7,354,627

City of Whitehall, Michigan

Notes to Basic Financial Statements

Business-Type Activities	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets, not depreciable:				
Land	\$ 453,097	\$ -	\$ -	\$ 453,097
Construction in progress	293,130	-	-	293,130
Total capital assets, not depreciable	746,227	-	-	746,227
Capital assets being depreciated:				
Plants and systems	10,325,583	18,328	-	10,343,911
Buildings and improvements	977,085	-	-	977,085
Land improvements	523,536	-	-	523,536
Equipment	217,747	-	-	217,747
Total capital assets being depreciated	12,043,951	18,328	-	12,062,279
Less accumulated depreciation for:				
Plants and systems	2,699,428	254,747	-	2,954,175
Buildings and improvements	412,298	23,652	-	435,950
Land improvements	268,578	10,057	-	278,635
Equipment	159,392	18,237	-	177,629
Total accumulated depreciation	3,539,696	306,693	-	3,846,389
Total capital assets being depreciated, net	8,504,255	(288,365)	-	8,215,890
Capital Assets, Net	\$ 9,250,482	\$ (288,365)	\$ -	\$ 8,962,117

City of Whitehall, Michigan

Notes to Basic Financial Statements

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 34,710
Public safety	89,978
Public works	372,010
Culture and recreation	1,807
Capital assets held by the government's internal service fund are charged to the various functions based on their usage of the assets	64,470

\$ 562,975

Business type activities:

Sewer	\$ 86,503
Water	190,842
Marina	24,829
Playhouse	4,519

\$ 306,693

Component Units	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets, not depreciable:				
Tax Increment Finance Authority				
Land	\$ 392,616	\$ -	\$ -	\$ 392,616
Local Development Finance Authority				
Land	547,628	-	-	547,628
Capital Assets, Net	\$ 940,244	\$ -	\$ -	\$ 940,244

City of Whitehall, Michigan

Notes to Basic Financial Statements

At June 30, 2008, the City's and its component units had entered into various agreements for construction projects. Below is a summary of those agreements:

Fund	Project	Spent- to-Date	Remaining
Water	Filtration plant	\$ 420	\$ 15,580
Street Improvement	Mears Ave.	8,944	38,056
TIFA	Misco Crossing	-	43,427
TIFA	Marina dredging	7,765	2,035
TIFA/Brownfield	Lake Street	31,586	14,914
		\$ 48,715	\$ 114,012

6. Access Rights

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Sewer Fund				
Access rights (40 years)	\$ 1,246,213	\$ -	\$ -	\$ 1,246,213
Less accumulated amortization	(735,829)	(36,654)	-	(772,483)
Access rights, net of accumulated amortization	\$ 510,384	\$ (36,654)	\$ -	\$ 473,730

City of Whitehall, Michigan

Notes to Basic Financial Statements

7. Bond Issuance Costs

Business-Type Activities	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Sewer Fund				
Issuance costs (9 years)	\$ 11,370	\$ -	\$ -	\$ 11,370
Issuance costs (15 years)	14,200	-	-	14,200
Water Fund				
Issuance costs (12 years)	138,718	-	-	138,718
Issuance costs (15 years)	9,992	-	-	9,992
Total bond issuance costs	174,280	-	-	174,280
Less amortization				
Sewer Fund				
Issuance costs (9 years)	11,370	-	-	11,370
Issuance costs (15 years)	6,627	947	-	7,574
Water Fund				
Issuance costs (12 years)	138,718	-	-	138,718
Issuance costs (15 years)	4,663	666	-	5,329
	161,378	1,613	-	162,991
Total Bond Issuance Cost, Net of Accumulated Amortization	\$ 12,902	\$ (1,613)	\$ -	\$ 11,289

Amortization expense was charged to functions as follows:

Sewer	\$ 947
Water	666
	<u>\$ 1,613</u>

City of Whitehall, Michigan

Notes to Basic Financial Statements

Component Units	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
TIFA				
Issuance costs (10 years)	\$ 18,297	\$ -	\$ -	\$ 18,297
LDFA				
Issuance costs (10 years)	19,389	-	-	19,389
Total bond issuance costs	37,686	-	-	37,686
Less amortization				
TIFA				
Issuance costs (10 years)	1,830	1,830	-	3,660
LDFA				
Issuance costs (10 years)	7,756	1,939	-	9,695
	9,586	3,769	-	13,355
Total Bond Issuance Cost, Net of Accumulated Amortization	\$ 28,100	\$ (3,769)	\$ -	\$ 24,331

Amortization expense was charged to functions as follows:

TIFA	\$ 1,830
LDFA	1,939
	<u>\$ 3,769</u>

8. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	Unearned
Receivables	\$ 675
Total deferred/unearned revenue for governmental funds	<u>\$ 675</u>

City of Whitehall, Michigan

Notes to Basic Financial Statements

9. Interfund Receivables, Payables and Transfers

The composition of interfund balances, caused by normal operations, is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Water Fund	\$ 30,885
Internal Service Fund	Water Fund	4,346
		<u>\$ 35,231</u>

Due to/from primary government and component units:

Primary government

General Fund - operation loan	\$ 40,000	\$ -
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Component Unit

Brownfield - operation loan	-	40,000
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\$ 40,000	\$ 40,000
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Interfund transfers:

	Transfers in:				Total	Purpose
	General Fund	Nonmajor Governmental Funds	Water Fund			
Transfers out:						
General Fund	\$ -	\$ 140,400	\$ -	\$ 140,400		Public works
Nonmajor governmental funds	11,783	71,855	-	83,638		Public works/ debt service
Sewer Fund	-	-	5,000	5,000		Public works
Total	\$ 11,783	\$ 212,255	\$ 5,000	\$ 229,038		

City of Whitehall, Michigan

Notes to Basic Financial Statements

10. Long-Term Debt The following is a summary of the long-term liabilities activity for the City for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due within one year
Governmental Activities					
General obligation bonds	\$ 335,000	\$ -	\$ 35,000	\$ 300,000	\$ 35,000
Installment purchase agreements	127,428	-	27,528	99,900	29,276
Brownfield redevelopment loan	250,000	498,000	-	748,000	-
Compensated absences	274,989	25,453	-	300,442	-
Governmental Activity Long-Term Liabilities	\$ 987,417	\$ 523,453	\$ 62,528	\$ 1,448,342	\$ 64,276
Business-Type Activities					
Revenue bonds	\$ 891,842	\$ -	\$ 136,211	\$ 755,631	\$ 145,631
Compensated absences	48,922	-	10,791	38,131	-
	\$ 940,764	\$ -	\$ 147,002	\$ 793,762	\$ 145,631
Component Units					
TIFA (Limited tax development bonds)	\$ 1,040,000	\$ -	\$ 150,000	\$ 890,000	\$ 155,000
LDFA (Limited tax development bonds)	500,000	-	65,000	435,000	65,000
	\$ 1,540,000	\$ -	\$ 215,000	\$ 1,325,000	\$ 220,000

City of Whitehall, Michigan

Notes to Basic Financial Statements

Governmental Activities

General Obligation bonds

Michigan Department of Transportation loan in annual installments of \$35,000 to \$50,000 through April 2015; interest at rates varying from 5.25% to 5.55%	\$ 300,000
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Installment purchase agreements

Note payable to bank due in monthly installments of \$658 including interest at 6.61% through September 2009	10,744
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Note payable to bank due in monthly installments of \$2,215 including interest at 5.95% through March 2012	89,156
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Brownfield redevelopment loan

Note payable to the Michigan Department of Environmental Quality due in annual installments of \$81,639 beginning March 2010 with payments through March 2019, including interest at 2.0%	748,000
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1,147,900

Compensated absences	300,442
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\$ 1,448,342

Business-Type Activities

Revenue bonds

Muskegon County Wastewater Management System No. 1 refunding Bonds of 2002 due July 2008; interest at 5%	\$ 60,631
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Water Supply System Revenue bonds of 2000 due in annual installments of \$35,000 to \$50,000 through April 2015; interest at rates varying from 5.25% to 5.5%	290,000
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Sanitary Sewer System Revenue Bonds of 2000 due in annual installments of \$50,000 to \$70,000 through April 2015; interest at rates varying from 5.25% to 5.55%	405,000
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755,631

Compensated absences	38,131
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\$ 793,762

City of Whitehall, Michigan

Notes to Basic Financial Statements

Component Units

Limited Tax Development bonds

Tax Increment Financing Authority \$800,000 Limited Tax Development Bonds of 2001 due in annual installments of \$90,000 to \$95,000 through February 2011; interest at rates varying from 4.4% to 4.6%	\$ 280,000
Tax Increment Financing Authority \$735,000 Limited Tax Development Bonds of 2006 due in annual installments of \$65,000 to \$90,000 through February 2016; interest at rates varying from 3.65% to 4.0%	610,000
Local Development Finance Authority \$695,000 Tax Increment Development Bonds of 2004 due in annual installments of \$65,000 to \$80,000 through February 2014; interest at rates varying from 3.1% to 3.95%	435,000

\$ 1,325,000

The general obligation bonds are backed by the full faith and credit of the City.

The 2002 County of Muskegon wastewater contracts payable represent agreements with Muskegon County relating to the construction of sewage treatment facilities. To construct these facilities, the County issued bonds which local municipalities are obligated to repay. The City has recorded the liability for its portion of the County bonds which are to be repaid by the access rights fee. Access rights are also recorded and are amortized over 10 years. The contractual obligation is secured by the full faith and credit of the City. Current debt service requirements are funded by sewer revenues.

The 2002 County of Muskegon wastewater contracts payable and the 2000 Water Supply revenue bonds are payable solely from the net revenues of the sewer and water supply directing the City to create funds restricted for use in the construction project and in debt service. Assets so restricted are detailed in Note 4.

The City was in compliance in all material respects with all the revenue bond ordinances at June 30, 2008.

City of Whitehall, Michigan

Notes to Basic Financial Statements

Annual debt service requirements to maturity for debt outstanding as of June 30, 2008 follows:

	Governmental Activities		Business Type Activities		Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 64,276	\$ 21,747	\$ 145,631	\$ 39,697	\$ 220,000	\$ 52,075
2010	148,184	18,122	85,000	33,718	235,000	43,728
2011	132,939	27,833	95,000	29,213	235,000	34,553
2012	134,131	22,856	95,000	24,110	150,000	24,833
2013	116,072	18,545	105,000	18,980	150,000	19,245
2014-2018	472,259	39,513	230,000	20,420	335,000	24,595
2019	80,039	1,601	-	-	-	-
	\$1,147,900	\$ 150,217	\$ 755,631	\$ 166,138	\$1,325,000	\$ 199,029

11. Other Information Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss in excess of insurance coverage can be reasonably estimated. There has been no loss in excess of insurance in the past three years.

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

City of Whitehall, Michigan

Notes to Basic Financial Statements

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

Other Post-Employment Benefits

In June 2004, the Governmental Accounting Standards Board ("GASB") issued its Statement 45 - "Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions." Other post-employment benefits ("OPEB") include post-employment healthcare insurance as well as other forms of post-employment benefits (for example, life insurance) when provided separately from a pension plan. GASB Statement 45 establishes standards for the measurement, recognition and display of OPEB expense/expenditures and related liabilities (assets), note disclosures and, if applicable, required supplementary information in the financial reports of state and local governmental employers.

The City currently provides post-retirement health care to certain full-time employees after they reach age 55 and have 15 years of service or age 60 and have 10 years of service. The City pays 100 percent of the non-union employee's premium and 80 percent of the union employee's premium after 20 years of employment. Similar to other governmental units, the City has funded its OPEB program on a pay-as-you-go basis, but will be required to begin reporting OPEB on an actuarial basis in its fiscal year beginning July 1, 2009.

As of year end, there were two retired employees receiving benefits. For the year ended June 30, 2008, the City's post-retirement health care cost under the Plan was approximately \$8,900.

City of Whitehall, Michigan

Notes to Basic Financial Statements

Jointly Governed Organization

The City, in conjunction with other governmental entities, created the White Lake Solid Waste Authority (WLSWA) to operate a solid waste transfer station, the White Lake Ambulance Authority (WLAA) to provide ambulance services, the White Lake Fire Authority (WLFA) to provide fire protection and rescue services, and the White Lake Community Library (WLCL) to provide an area library.

The boards of the Authorities are comprised of one or two members from each participating entity. The WLSWA board annually assesses participating entities in projected amounts required to subsidize the Authorities' annual operations. There was no assessment for WLSWA for the year ended June 30, 2008. WLFA, WLAA and WLCL are funded through a property tax levy. Audited financial statements are available from the Authorities.

12. Employee Retirement Systems and Pension Plans

Pension Plan

Plan Description. The City is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS), administered by the State of Michigan. The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the City. The MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 N. Canal Rd., Lansing, MI 48917.

City of Whitehall, Michigan

Notes to Basic Financial Statements

Funding Policy. City employees are required to contribute 3 to 5 percent to the Plan depending on employee contract. The City is required to contribute at an actuarially-determined rate depending upon position; the rates as of the most recent actuarial valuation ranged from 7.05 percent to 10.84 percent of covered wages.

Annual Pension Cost. For the year ended June 30, 2008, the City's annual pension cost of approximately \$122,000 was equal to the City's required and actual contributions.

Three year trend information

Year Ending	Approximate Annual Pension Cost (APC)	Percent of APC Contributed	Net Pension Obligation
6/30/06	\$ 87,000	100%	\$ -
6/30/07	113,000	100%	-
6/30/08	122,000	100%	-

The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases of 4.5 percent per year, and (c) projected merit and longevity salary increases ranging from 0 percent to 8.4 percent. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a ten-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 28 years.

Funded Status and Funding Progress. As of December 31, 2007, the most recent actuarial valuation date, the plan was 84 percent funded. The actuarial accrued liability for benefits was \$4,274,645, and the actuarial value of assets was \$3,608,087, resulting in an unfunded actuarial accrued liability (UAAL) of \$666,558. The covered payroll (annual payroll of active employees covered by the plan) was \$1,193,561, and the ratio of the UAAL to the covered payroll was 56 percent.

City of Whitehall, Michigan

Notes to Basic Financial Statements

The schedule of funding progress, presented as Required Supplemental Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time City employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

The Plan has created a trust for the exclusive benefit of the Plan’s participants and beneficiaries under rules provided in Internal Revenue Code Section 401(f).

**13. Economic
Dependency**

State of Michigan shared revenues represent 17 percent of General Fund revenues.

The City has a significant economic dependence on a local corporation that is a major employer, taxpayer, and user of water and sewer services. The following is the percentage of taxes and utilities paid by the corporation.

Real and personal property taxes	29%
Water and sewer accounts receivable	62%
Water and sewer billings	57%

City of Whitehall, Michigan

Notes to Basic Financial Statements

14. Reconciliation of Capital Outlay

Capital outlay expenditures for governmental funds differ from amounts capitalized. The differences are detailed as follows:

Total capital purchases as reported in the governmental funds	\$1,157,747
Adjustments	
Capital projects not City owned	(1,111,705)
Donated from TIFA	64,175
Net Assets Capitalized	\$ 110,217

15. Excess of Expenditures Over Appropriations in Budgetary Funds

During the year ended June 30, 2008, the City incurred expenditures in various funds which were in excess of amounts appropriated, as follows:

	Appropriation	Actual Expenditures
Street Improvement Fund	\$ -	\$ 8,944
Leaf Disposal Fund	60,200	65,980

All expenditures over appropriations as identified above have been paid by excess revenues or by reduced expenditures in other activities.

Required Supplemental Material



City of Whitehall, Michigan

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Major Government Funds

	General Fund		
	Original Budget	Final Budget	Actual
<i>Year ended June 30, 2008</i>			
Revenues			
Property taxes	\$ 1,134,500	\$ 1,134,500	\$ 1,129,945
Licenses and permits	12,500	12,500	23,703
Intergovernmental revenues	423,710	522,710	524,226
Charges for services	54,728	54,728	60,963
Fines and forfeitures	8,600	8,600	9,880
Investment earnings	32,000	51,000	63,481
Other	1,000	9,460	10,208
Total Revenues	1,667,038	1,793,498	1,822,406
Expenditures			
Current			
General government	507,885	507,885	464,692
Public safety	820,480	820,480	760,181
Public works	105,865	134,910	127,378
Health and sanitation	4,250	4,250	1,825
Community and economic development	22,875	22,875	20,018
Culture and recreation	139,845	144,065	147,664
Other governmental functions	12,230	12,230	8,827
Debt service			
Principal	7,001	7,001	6,918
Interest and fees	894	894	976
Capital outlay	27,600	52,085	46,042
Total Expenditures	1,648,925	1,706,675	1,584,521
Excess of Revenues Over Expenditures	18,113	86,823	237,885
Other Financing Sources (Uses)			
Transfers in	21,300	11,785	11,783
Transfers (out)	(131,750)	(140,400)	(140,400)
Total Other Financing Sources (Uses)	(110,450)	(128,615)	(128,617)
Revenues and Other Sources Over (Under) Expenditures and Other Uses	(92,337)	(41,792)	109,268
Fund Balance, at beginning of year	727,727	727,727	727,727
Fund Balance, at end of year	\$ 635,390	\$ 685,935	\$ 836,995

City of Whitehall, Michigan

Required Supplementary Information for Pension Plans - GASB 50

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
December 31,						
2005	\$ 3,188	\$ 3,714	\$ 526	86%	\$ 1,130	46.5%
2006	3,394	3,943	549	86%	1,145	47.9%
2007	3,608	4,275	667	84%	1,194	55.9%

		Special	
	Total Other Governmental Funds	Leaf Removal and Disposal	Major Street
<i>June 30, 2008</i>			
Assets			
Cash and investments	\$ 748,201	\$ 2,478	\$185,009
Interest receivable	378	5	194
Due from other governmental units	41,658	-	31,200
Total Assets	\$ 790,237	\$ 2,483	\$216,403
Liabilities and Fund Balances (Deficits)			
Liabilities			
Checks issued against future deposits	\$ 1,276	\$ -	\$ -
Accounts payable	10,624	-	1,680
Accrued liabilities	2,437	-	974
Deferred revenue	675	-	-
Total Liabilities	15,012	-	2,654
Fund balances (deficits)			
Reserved for capital projects	81,576	-	-
Reserved for perpetual care	414,717	-	-
Unreserved	278,932	2,483	213,749
Total Fund Balances (Deficits)	775,225	2,483	213,749
Total Liabilities and Fund Balances (Deficits)	\$ 790,237	\$ 2,483	\$216,403

City of Whitehall, Michigan

Combining Balance Sheet - Non-Major Governmental Funds

Revenue Funds			
Local Street	Building Inspection	Street Improvement	Sidewalk Improvement
\$ 63,051	\$ -	\$ 365	\$ 470
39	-	-	-
10,458	-	-	-
\$ 73,548	\$ -	\$ 365	\$ 470
\$ -	\$ 1,276	\$ -	\$ -
-	-	8,944	-
886	577	-	-
-	-	-	-
886	1,853	8,944	-
-	-	-	-
-	-	-	-
72,662	(1,853)	(8,579)	470
72,662	(1,853)	(8,579)	470
\$ 73,548	\$ -	\$ 365	\$ 470

This statement covers more than one page.

<i>June 30, 2008</i>	Capital Projects Funds	
	Capital Improvements	Public Improvement
Assets		
Cash and investments	\$ 79,164	\$ 3,007
Interest receivable	76	4
Due from other governmental units	-	-
Total Assets	\$ 79,240	\$ 3,011
Liabilities and Fund Balances (Deficits)		
Liabilities		
Checks issued against future deposits	\$ -	\$ -
Accounts payable	-	-
Accrued liabilities	-	-
Deferred revenue	-	675
Total Liabilities	-	675
Fund balances (deficits)		
Reserved for capital projects	79,240	2,336
Reserved for perpetual care	-	-
Unreserved	-	-
Total Fund Balances (Deficits)	79,240	2,336
Total Liabilities and Fund Balances (Deficits)	\$ 79,240	\$ 3,011

City of Whitehall, Michigan

Combining Balance Sheet - Non-Major Governmental Funds



<u>Debt Service Fund</u>		<u>Permanent Fund</u>	
2000 Michigan Department of Transportation		Cemetery Care Fund	
\$	-	\$414,657	
	-	60	
	-	-	
\$	-	\$414,717	
\$	-	\$	-
	-		-
	-		-
	-		-
	-		-
	-	414,717	
	-	-	
	-	414,717	
\$	-	\$414,717	

		Special	
	Total Other Governmental Funds	Leaf Removal and Disposal	Major Street
<i>Year ended June 30, 2008</i>			
Revenues			
Intergovernmental revenues			
State	\$ 270,680	\$ -	\$ 189,043
Charges for services	32,857	-	-
Investment earnings	37,267	247	7,944
Other	10,417	-	2,317
Total Revenues	351,221	247	199,304
Expenditures			
Current			
Public safety	41,673	-	-
Public works	420,920	65,980	173,829
Debt service			
Principal	55,610	-	-
Interest and fees	24,355	-	-
Capital outlay	-	-	-
Total Expenditures	542,558	65,980	173,829
Excess of Revenues Over (Under)			
Expenditures	(191,337)	(65,733)	25,475
Other Financing Sources (Uses)			
Operating transfers in	212,255	60,100	-
Operating transfers out	(83,638)	-	(41,428)
Total Other Financing Sources (Uses)	128,617	60,100	(41,428)
Net Change in Fund Balances	(62,720)	(5,633)	(15,953)
Fund Balance , at beginning of year	837,945	8,116	229,702
Fund Balance (Deficit) , at end of year	\$ 775,225	\$ 2,483	\$ 213,749

City of Whitehall, Michigan

Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Governmental Funds

Revenue Funds			
Local Street	Building Inspection	Street Improvement	Sidewalk Improvement
\$ 81,637	\$ -	\$ -	\$ -
-	22,557	-	-
2,281	263	150	16
-	-	-	-
83,918	22,820	150	16
-	41,673	-	-
172,167	-	8,944	-
-	-	-	-
-	-	-	-
-	-	-	-
172,167	41,673	8,944	-
(88,249)	(18,853)	(8,794)	16
62,125	-	18,150	-
(12,277)	-	(18,150)	-
49,848	-	-	-
(38,401)	(18,853)	(8,794)	16
111,063	17,000	215	454
\$ 72,662	\$ (1,853)	\$ (8,579)	\$ 470

This statement covers more than one page.

<i>Year ended June 30, 2008</i>	Capital Projects Funds	
	Capital Improvements	Public Improvement
Revenues		
Intergovernmental revenues		
State	\$ -	\$ -
Charges for services	-	-
Investment earnings	2,931	404
Other	-	8,100
Total Revenues	2,931	8,504
Expenditures		
Current		
Public safety	-	-
Public works	-	-
Debt service		
Principal	-	20,610
Interest and fees	-	5,975
Capital outlay	-	-
Total Expenditures	-	26,585
Excess of Revenues Over (Under)		
Expenditures	2,931	(18,081)
Other Financing Sources (Uses)		
Operating transfers in	-	18,500
Operating transfers out	-	-
Total Other Financing Sources (Uses)	-	18,500
Net Change in Fund Balances	2,931	419
Fund Balance , at beginning of year	76,309	1,917
Fund Balance (Deficit) , at end of year	\$ 79,240	\$ 2,336

City of Whitehall, Michigan

Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Governmental Funds

<u>Debt Service Fund</u>	<u>Permanent Fund</u>
2000 Michigan Department of Transportation	Cemetery Care Fund
\$ -	\$ -
-	10,300
-	23,031
-	-
-	33,331
-	-
-	-
35,000	-
18,380	-
-	-
53,380	-
(53,380)	33,331
53,380	-
-	(11,783)
53,380	(11,783)
-	21,548
-	393,169
\$ -	\$414,717

<i>Ten Years Ended June 30,</i>	2008	2007	2006	2005
Tax levy and millages				
Estimated population	2,884	2,884	2,884	2,884
State equalized valuation				
City total	\$ 116,252,679	\$ 112,640,629	\$ 107,653,140	\$ 104,782,541
Per resident	40,310	39,057	37,328	36,332
Tax levy (mills)				
General fund	12.776	12.776	12.779	13.219
Tax levy – amounts				
Total levy	\$ 1,485,283	\$ 1,439,373	\$ 1,375,699	\$ 1,385,120
Per resident	515.01	499.09	477.01	480.28
State shared revenues				
Total amount	\$ 754,175	\$ 1,078,277	\$ 619,969	\$ 579,834
Per resident	261.50	373.88	214.97	201.06
Federal shared revenues				
Total amount	\$ 1,001	\$ 2,208	\$ 3,152	\$ 12,368
Per resident	0.35	0.77	1.09	4.29
Total revenue – General Fund				
Amount	\$ 1,834,189	\$ 1,918,662	\$ 1,719,342	\$ 1,879,255
Per resident	635.99	665.28	596.17	651.62
Total expenditures – General Fund				
Amount	\$ 1,724,921	\$ 1,979,899	\$ 1,647,346	\$ 2,054,217
Per resident	598.10	686.51	571.20	712.28

2007 Current real and personal property taxes were assessed and collected as detailed below:

Unit	Levy	Collected	Delinquent	Percent Collected
City	\$ 1,485,283	\$ 1,485,283	\$ -	
School	3,572,420	3,351,471	220,949	
County	783,008	749,098	33,910	
Library	133,684	125,206	8,478	
Fire Authority	167,443	156,824	10,619	
Ambulance Authority	63,933	59,878	4,055	
	\$ 6,205,771	\$ 5,927,760	\$ 278,011	95.5%

City of Whitehall, Michigan

Schedule of Operating Statistics (Unaudited)



2004	2003	2002	2001	2000	1999
2,884	2,884	2,884	2,884	3,027	3,027
\$ 101,095,154	\$99,941,443	\$ 93,307,236	\$87,605,217	\$86,596,278	\$82,616,153
35,054	34,654	32,007	30,376	28,608	27,293
13.219	13.219	13.219	13.219	13.358	14.018
\$ 1,336,377	\$ 1,321,126	\$ 1,220,202	\$ 1,158,046	\$ 1,156,753	\$ 1,158,113
463.38	458.09	423.09	401.54	382.15	382.59
\$ 603,929	\$ 607,093	\$ 640,490	\$ 682,673	\$ 686,772	\$ 662,591
209.41	210.50	222.08	236.71	226.89	218.89
\$ 225,407	\$ 6,250	\$ 25,517	\$ 638,407	\$ 2,049,179	\$ 164,643
78.16	2.17	8.84	221.36	676.97	54.39
\$ 1,778,162	\$ 1,766,576	\$ 1,793,793	\$ 1,647,413	\$ 1,580,737	\$ 1,509,145
616.56	612.54	621.98	571.22	522.22	498.56
\$ 1,712,443	\$ 1,845,898	\$ 1,727,770	\$ 1,474,719	\$ 1,461,157	\$ 1,324,965
593.77	640.05	599.08	511.34	482.71	437.71

City of Whitehall, Michigan

Comparative Operating Statistics Water and Sewer System (Unaudited)

	2008	2007	2006	2005	2004
Population served	2,884	2,884	2,884	2,884	2,884
Average number of meters in service	1,457	1,435	1,413	1,391	1,274
M. gallons pumped to main	393,509	360,353	381,490	388,872	390,293
M. gallons sold	323,478	359,901	350,225	312,959	364,611
M. gallons water line loss	70,031	9,549	31,265	75,913	25,682
Loss percent to total pumpage	17.8%	2.6%	8.2%	19.5%	6.6%
Revenues from sales					
Water	\$ 642,609	\$730,956	\$673,300	\$744,115	\$692,830
Sewer	727,215	878,236	725,728	753,835	724,480
Average number of customers	1,273	1,251	1,290	1,311	1,150

City of Whitehall, Michigan

Management Letter Year ended June 30, 2008



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Honorable Mayor and
Members of the City Council
City of Whitehall, Michigan

During the course of our audit of the financial statements of the City of Whitehall, Michigan as of June 30, 2008 and for the year then ended, we observed the City's significant accounting policies and procedures and certain administrative, and financial practices.

As a result of our observations, we have prepared for management's review and evaluation, the enclosed memorandum containing matters regarding internal control, financial and administrative practices of the City of Whitehall, Michigan.

Matters which related to internal accounting control were not of a magnitude that would effect the presentation of the financial statements.

We appreciate the cooperation from management and the staff of the City of Whitehall, Michigan that our personnel received during the audit.

Pridnia Lapres, PLLC

October 8, 2008

City of Whitehall, Michigan

Current Year Comments

Approval of Employee Time Reports

During our audit of the City for the year ended June 30, 2008, we noted that employees are required to submit hours worked through the use of time cards or time sheets. However, these time reports are not signed by the employee or approved in writing by authorized supervisory personnel. Documented approval of the record of hours worked is an important control to help ensure that employees are paid only for those hours worked and that any invalid hours are detected.

Computer Passwords

During our audit of the City for the year ended June 30, 2008, we noted that there are not sufficient computer password restrictions in place (e.g., alphanumeric, length of character, etc.). In addition, we noted that computer passwords are not required to be changed on a periodic basis. The absence of controls related to computer passwords results in the possibility that unauthorized persons could access the system, which could result in unauthorized data or erroneous transactions entering the system.

New Pronouncements

There are several new pronouncements that have been issued by the Governmental Accounting Standards Board (GASB) that will affect future financial statements issued by the City. A brief summary of these new pronouncements is presented below:

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* addresses how the City should account for and report costs and obligations related to postemployment healthcare and other non-pension benefits. Collectively these benefits are referred to as other postemployment benefits (OPEB). It will require the City to account for OPEB essentially the same as is done for pensions. This will require an actuarial valuation for the applicable OPEB plans. If a trust is established it will be reported as a pension trust fund. If the annual required contribution is not made a liability will be reported for the unpaid portion. This pronouncement will be effective for the City for the year ending June 30, 2010.

City of Whitehall, Michigan

Current Year Comments

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* discusses how to identify and report pollution remediation obligations for City owned property. Examples include water pollution, brownfield remediation and asbestos removal but not landfill closure costs. The pronouncement identifies five obligating events which could trigger recording a liability. The liability would include pre-cleanup, cleanup activities, oversight and enforcement activities. A liability is required to be reported once it is possible to reasonably estimate the liability, regardless of whether it is probable that it will be paid. The pronouncement will be effective for the year ending June 30, 2009.

GASB Invitation to Comment, *Fund Balance Reporting and Governmental Fund Type Definitions* attempts to clarify the availability of resources in funds other than the General Fund and define what is meant by “legally restricted”. The pronouncement would clarify the fund balance classifications and eliminate the “reserved fund balance” category. The new categories would be Spendable and Nonspendable, with the spendable being further broken down into four sub-categories: restricted, limited, assigned and unassigned.



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Honorable Mayor and City Council
City of Whitehall, Michigan
405 E. Colby Street
Whitehall, Michigan 49461

October 8, 2008

Dear Mayor Hatch and Members of the City Council:

Professional standards require us to advise you of the following matters relating to our recently completed audit of the City of Whitehall, Michigan (the "City") as of and for the year ended June 30, 2008. The matters discussed herein are those that we have noted as of October 8, 2008 and we have not updated our procedures regarding these matters since that date to the current date.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated May 19, 2008, our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatements, whether caused by error or fraud. An audit in accordance with generally accepted auditing standards does not provide absolute assurance or guarantee the accuracy of the financial statements and is subject to the inherent risk that errors or fraud, if they exist, have not been detected. Such standards also require that we obtain a sufficient understanding of the City's internal control to plan the audit. However, such understanding is required for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Overview of Planned Scope and Timing of the Audit

A discussion was held with the City Manager and Finance Officer/Treasurer on May 28, 2008 regarding the planned scope and timing of the audit, the intention of which was to assist those charged with governance in understanding better the consequences of our audit work on your oversight responsibilities along with assisting us in understanding better the City and its environment. The focus of this discussion included how the risks of material misstatement, whether due to error or fraud, would be addressed and on factors, rather than specific thresholds or amounts, that would impact materiality used in our planning and execution of the audit.

Significant Findings from the Audit

Management Judgments and Accounting Estimates

Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. We have made tests of management's estimates and deemed them to be appropriate.

There were no material contingencies, as defined in FASB Statement No. 5, for which we had questions or concerns about the reasonableness of the accounting or the adequacy of the financial statement disclosure.

Misstatements

Professional standards require the auditor to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Additionally, we are required to communicate with those charged with governance uncorrected misstatements and the effect that they may have on the opinion in the auditor's report, and request their correction.

During our audit, no material corrected misstatements or unrecorded misstatements were brought to the attention of management by us.

Discussion about the Quality of Significant Accounting Practices

In accordance with applicable auditing standards, a discussion was held with on September 5, 2008 regarding the quality of the City's significant accounting practices, which included the City's significant accounting practices, estimates, and financial statement disclosures.

Adoption of a Change in Accounting Principle

There were no situations involving the adoption of or a change in accounting principles where the application of alternative generally accepted accounting principles, including alternative methods of applying an accounting principle, would have a material effect on the City's financial statements.

Disagreements with Management

Professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the City's financial statements or the audit report. No such disagreements arose during the course of our audit.

Consultation with Other Accountants

There may be circumstances where the City considers consulting with other accountants about accounting and auditing matters. We are not aware of any consultations about accounting or auditing matters between management and other accountants. We are also not aware of opinions obtained by management from other accountants on the application of generally accepted accounting principles.

Significant Issues Discussed with Management Prior to Our Retention

Prior to our being retained as auditor for the current fiscal year, there were no significant accounting or other issues of concern discussed with management.

Material Alternative Accounting Treatments Discussed with Management

During the past year, there were no discussions with management concerning material alternative accounting treatments.

Significant Difficulties Encountered in Performing the Audit

There were no significant difficulties encountered during the course of the audit. All records and information requested by Pridnia LaPres, PLLC were freely available for inspection. Management and other personnel provided full cooperation.

Representations Requested from Management

Refer to the management representation letter that we have provided to those charged with governance.

Other Issues Arising from the Audit that We Consider Significant and Relevant to Those Charged with Governance

There were no other issues arising from the audit that we consider significant and relevant to those charged with governance.

Other Material Written Communications with Management

We have provided to those charged with governance copies of all material written communications that we prepared in connection with our annual audit.

Internal Control Matters

We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Independence

We are not aware of any circumstances or relationships that would impair our independence.

Should you desire further information concerning these matters, we will be happy to meet with you at your convenience.

This letter is solely for the internal use of those charged with governance and management of the City of Whitehall, Michigan and should not be distributed to any other persons or used for any other purpose.

Very truly yours,

A handwritten signature in black ink that reads "Prudnia L. Pres, LLC". The signature is written in a cursive, flowing style.